

**Memorandum**

Date . JAN 16 1996

From June Gibbs Brown
Inspector General *June G Brown*Subject Audit of Administrative Costs - Medicare Parts A and B--Aetna Life Insurance
Company (A-01-95-00504)To
Bruce C. Vladeck
Administrator
Health Care Financing Administration

This memorandum is to alert you to the issuance on January 18, 1996 of our final report. A copy is attached.

The audit covered the costs claimed on Aetna Life Insurance Company's (Aetna) final administrative cost proposals (FACPs) for Parts A and B of the Medicare program for the Fiscal Years 1990 through 1994. Of the total claimed, we are recommending financial adjustments of \$2,938,223 (Part A - \$698,785; Part B - \$2,239,438) because Aetna:

- claimed \$512,330 (Part A - \$189,910; Part B - \$322,420) for unallowable facilities and occupancy costs. The costs were applicable to space in excess of the maximum square footage permitted under the Medicare agreements.
- charged Medicare \$645,499 (Part A - \$235,071; Part B - \$410,428) for unallowable rental costs related to the Medicare home office facility. These costs included an allocation of costs in excess of the actual rental costs related to the facility and unallowable finance charges for a capital improvement project at the facility.
- allocated \$108,189 (Part A - \$50,036; Part B - \$58,153) for various corporate cost centers which provided no benefits to the Medicare program.
- claimed \$1,672,205 (Part A - \$223,768; Part B - \$1,448,437) for excessive incentive payment fees. These fees were overstated because (1) claim counts reported for Part B claims processed were inflated and (2) adjustments to the submitted FACPs initiated by Aetna and audit adjustments recommended by OIG resulted in a net reduction to the allowable incentive fee.

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In its response, Aetna concurred with all recommended adjustments except for the adjustment related to space claimed in excess of the maximum square footage permitted under the Medicare agreements.

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Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF ADMINISTRATIVE COSTS
MEDICARE PARTS A AND B
AETNA LIFE INSURANCE COMPANY**



**JUNE GIBBS BROWN
Inspector General**

**JANUARY 1996
A-01-95-00504**

EXECUTIVE SUMMARY

BACKGROUND

The Health Care Financing Administration (HCFA) administers the Medicare program by contracting with private organizations to process and pay claims for services provided to eligible beneficiaries. The HCFA has contracted with Aetna Life Insurance Company (Aetna) to process Part A claims submitted by certain hospitals and other medical suppliers in the states of Connecticut, California, Florida, Illinois, Massachusetts and Pennsylvania. During the period October 1989 through September 1994, Aetna claimed administrative costs of \$193 million to process 41 million Part A claims.

Aetna has also been contracted to process Part B claims submitted by physicians and other medical suppliers in the states of Alaska, Arizona, Georgia, Hawaii, Nevada, New Mexico, Oregon and Oklahoma. Beginning in fiscal year 1994, Aetna also began processing Part B claims for the state of Washington. During the period October 1989 through September 1994, Aetna claimed administrative costs of \$329 million to process 181 million Part B claims.

OBJECTIVES

The objectives of our review were to determine (1) *whether Aetna has established effective systems of internal control, accounting and reporting for administrative costs and (2) the allowability of costs claimed for the period October 1989 through September 1994.*

RESULTS OF REVIEW

We found that Aetna has generally established adequate systems of internal control, accounting, and reporting for administrative costs. Further, most of the administrative costs claimed for the period October 1989 through September 1994 were allowable under the provisions of the contract with HCFA and applicable parts of the Federal Acquisition Regulations. However, we identified about ***\$2.94 million which constitute unallowable charges to Medicare*** for the period under review. In addition, *we also identified unallowable costs of \$77,088 included in Aetna's proposed adjustment to settle the prior audit report (CIN: A-01-91-00500) covering the period October 1987 through September 1989.* The issues related to these unallowable costs are briefly summarized below and reported in more detail in the **FINDINGS AND RECOMMENDATIONS** section of this report.

- o Appendix B of the Medicare agreement limits the allocation of space to Medicare to 135 square feet of net usable space per full-time equivalent (FTE). We found that Aetna allocated more than an average of 135 square feet per FTE resulting in excess facility and occupancy costs claimed in the fiscal years 1990 through 1994 Final Administrative Cost Proposals (FACP). **We are recommending that the FACP for the five years under audit be reduced as follows: Part A by \$189,910 and Part B by \$322,420.**

- o The prior audit report on Aetna's claim for Medicare administrative costs for fiscal years 1988 and 1989 (CIN: A-01-91-00500) disclosed that Aetna charged Medicare for direct Home Office rent under a corporate rent pool method rather than charging actual rent cost applicable to the facility. This resulted in an inequitable allocation of costs to the program. Aetna agreed to change the method of charging rent to the actual cost of operating this facility. However, the rent pool method was utilized through September 1991 and resulted in additional unallowable costs claimed for fiscal years 1990 and 1991. **We are recommending that the FACP's for the two years be reduced as follows: Part A by \$219,148 and the Part B by \$382,923.**
- o Between fiscal years 1992 through 1994, Aetna began charging Medicare direct Home Office rent on the basis of actual operating costs of the Medicare Home Office facility. However, we found that, contrary to Federal regulations, Aetna included finance charges related to a capital improvement project at the facility in the rental charge to Medicare. **We are recommending that the FACP's for the three years be reduced as follows: Part A by \$15,923 and Part B by \$27,505.**
- o Aetna personnel identified a series of 25 corporate cost centers as unallowable allocations to Medicare during the compilation of costs for the fiscal year 1992 FACP's. Aetna did not include these costs in these FACP's. However, we found that costs related to some of these same cost centers were included in the FACP's submitted for fiscal years 1990 and 1991. These costs are unallowable because the cost centers do not provide any benefit to the Medicare program. Our review also disclosed that clerical errors were made by Aetna in determining the amount to be eliminated from the fiscal year 1992 FACP resulting in an overstatement of the amount identified as unallowable. **We are recommending that the applicable FACP's be reduced in the net amounts as follows: Part A by \$50,036 and Part B by \$58,153.**
- o For fiscal years 1993 and 1994, the incentive payment fees claimed by Aetna for maintaining actual costs lower than targeted amounts were overstated because the Part B claim counts were incorrectly reported for two of six Part B field offices. The overstated claim count has a direct effect on the incentive payment fee resulting in overstated incentive fees. In addition, Aetna proposed adjustments to the FACP's increasing the costs claimed in the submitted FACP's. This decreased the variance between actual and target costs which reduced the allowable amount of the incentive payment fees for fiscal years 1993 and 1994. **We are recommending that the allowable incentive payment fees be reduced in the net amounts as follows: Part A by \$223,768 and Part B by \$1,448,437.**

We also determined that unallowable finance charges were included in Aetna's proposed adjustment to settle the prior audit report's finding regarding Home Office rental costs covering fiscal years 1988 and 1989. The HCFA conditionally settled these FACP's subject to

our review of the proposed adjustment. **We are recommending that HCFA revise the settlement for the fiscal years 1988 and 1989 by reducing the allowable reimbursable costs for Part A by \$34,068 and for Part B by \$43,020.**

In response to our draft report (see **APPENDIX D**), Aetna officials agreed with all audit recommendations with the exception of the recommendations related to the Allocation of Facility and Occupancy Costs. In this regard, Aetna officials stated that the General Service Administration (GSA) regulations are more lenient than the requirements of the Medicare contract. Aetna feels that since the GSA regulations are used by HCFA for determining compliance with government space requirements, these regulations should also be used for determining the amount of space allocable to the Medicare program. Aetna further believes that retroactive application of the 135 square foot rule was unfair and precedent setting and that if HCFA is changing direction on this rule, the rule should be applied prospectively and not retroactively. In our opinion, the space requirements included in Appendix B are very specific with regard to the determination of space allocable to Medicare and these requirements must be followed by all Medicare contractors.

Related Reports

The Office of Inspector General (OIG), Office of Audit Services' Region VII office conducted a review of pension costs charged to the Medicare program by Aetna and other Medicare contractors. These individual contractor reviews were performed as part of a nationwide review of pension costs. The results of the Aetna review are contained in the following audit reports entitled, "Audit of Medicare Contractor's Pension Segmentation - Aetna Life Insurance Company" (CIN: A-07-93-00633), issued October 5, 1993 and "Review of Unfunded Pension Costs of the Aetna Life Insurance Company" (CIN: A-07-93-00679) issued May 11, 1994. As a result, we excluded all pension costs from the scope of our current review. Both of these audits covered the period January 1986 through December 1990.

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INTRODUCTION

BACKGROUND

Title XVIII of the Social Security Act established the Health Insurance for the Aged and Disabled (Medicare) program. This program provides for hospital insurance and related medical insurance for (a) eligible persons aged 65 and over, (b) disabled persons under 65 who have been entitled to Social Security benefits for at least 24 consecutive months and (c) individuals under age 65 with chronic kidney disease who are currently insured by or entitled to Social Security benefits.

Specifically, Part A of the program is the hospital insurance program and provides coverage related to the cost of inpatient hospital care, post-hospital extended care and post-hospital home health care. Part B of the program is the voluntary medical insurance program and provides protection against the cost of physician services, hospital outpatient services, home health care and other health services.

The Health Care Financing Administration (HCFA) administers the Medicare program by contracting with private organizations to process and pay claims for services provided to eligible beneficiaries. Contractors administering the Part A provisions of the program are known as intermediaries and those administering the Part B provisions are known as carriers. The contracts define the functions to be performed by the intermediaries and carriers and provide for the reimbursement of allowable administrative costs incurred in their performance. Such costs are claimed for reimbursement through submission of Final Administrative Cost Proposals (FACP) to HCFA.

Aetna Life Insurance Company (Aetna) has been contracted to process Part A claims submitted by certain hospitals and other medical suppliers in the states of Connecticut, California, Florida, Illinois, Massachusetts and Pennsylvania. In addition to the Medicare Home Office Administration, Aetna has also established five Part A field offices to assist in processing claims submitted for payment. During the period October 1989 through September 1994, Aetna claimed for reimbursement administrative costs of \$191,591,364 to process 41,063,623 Part A claims. In addition, Aetna proposed adjustments to the Part A FACPs for this period increasing the claim for reimbursement by \$868,518. These administrative costs include both direct costs of administering the Part A program as well as allocations of certain corporate costs associated with corporate services utilized by Aetna's Medicare administration.

Aetna has also been contracted to process Part B claims submitted by physicians and other medical suppliers in the states of Alaska, Arizona, Georgia, Hawaii, Nevada, New Mexico, Oregon and Oklahoma. Beginning in fiscal year 1994, Aetna also began processing Part B claims for the state of Washington. Aetna established six Part B field offices to assist in processing claims submitted for payment. During the period October 1989 through September 1994, Aetna claimed for reimbursement administrative costs of \$328,719,669 to process 180,767,043 Part B claims. In addition, Aetna proposed adjustments to the Part B FACPs for this period increasing the claim for reimbursement by \$578,380. These administrative costs include both direct costs of administering the Part B program as well as allocations of certain corporate costs associated with corporate services utilized by Aetna's Medicare administration.

OBJECTIVES

The objectives of our review were to determine (1) whether Aetna has established effective systems of internal control, accounting and reporting for administrative costs and (2) the allowability of costs claimed for the period October 1989 through September 1994.

SCOPE

Our review was conducted in accordance with generally accepted government auditing standards. In performing our review, we:

- o* traced the amounts claimed on the FACPs, for the five fiscal years ending September 30, 1994, to Aetna's corporate books and records;
- o* identified and analyzed significant changes in the amounts claimed for each type of cost during the five fiscal years;
- o* reviewed the significant internal control areas identified relevant to our audit objective;
- o* performed detailed audit tests of costs claimed for salaries and fringe benefits, facility and occupancy, travel, return on investment, and incentive payment fees;
- o* performed detailed audit tests of various costs allocated to Medicare from corporate cost centers, including a review of the methods and bases of allocation of such costs; and
- o* followed up on findings and recommendations identified during the previous administrative cost audit conducted at Aetna to determine whether the reported deficiencies were corrected.

With respect to our review of internal controls, we reviewed those controls in place for (1) identifying and accumulating costs related to the administration of the program and the reporting of such costs on FACPs, (2) ensuring that methods used to allocate corporate cost centers to the Medicare program were reasonable and (3) identifying costs that are unallowable under applicable regulations and eliminating such costs from the claims for reimbursement. We also reviewed specific controls in place for individual cost categories selected for review.

We limited our detailed testing of individual transactions in the major expense accounts based on the results of our review of internal controls and other tests. In addition, we did not review the pension costs claimed by Aetna as part of fringe benefits. These costs were reviewed by personnel from our Region VII office as part of a nationwide review of Medicare

pension costs. The results of the Region VII review at Aetna are contained in audit reports entitled, "Audit of Medicare Contractor's Pension Segmentation - Aetna Life Insurance Company" (CIN: A-07-93-00633) issued on October 5, 1993 and "Review of Unfunded Pension Costs of the Aetna Life Insurance Company" (CIN: A-07-93-00679) issued on May 11, 1993. Both of these audits covered the period January 1986 through December 1990.

Our findings on the evaluation of the items tested during our audit are included in the **FINDINGS AND RECOMMENDATIONS** section of this report. We found no significant instances of noncompliance with applicable laws and regulations other than the issues discussed in the report. We conducted our review at Aetna's Medicare Home Office in Middletown, Connecticut and Aetna's corporate offices in Hartford, Connecticut during the period November 1994 through June 1995.

FINDINGS AND RECOMMENDATIONS

We found that Aetna has generally established adequate systems of internal control, accounting, and reporting for administrative costs. Further, most of the administrative costs claimed for the period October 1989 through September 1994 were allowable under the provisions of the contract with HCFA and applicable parts of the Federal Acquisition Regulations. However, we identified **\$2,938,223 (Part A - \$698,785; Part B - \$2,239,438) which constitute unallowable charges to Medicare** for the period under review. The issues related to these unallowable costs are discussed below.

ALLOCATION OF FACILITY AND OCCUPANCY COSTS

Our review disclosed that, contrary to Appendix B of the Medicare agreement, Aetna allocated facility and occupancy costs based on space which exceeded an average of 135 net usable square feet per full time equivalent (FTE). The average space allocation for each year of the audit period ranged from 134 to 150 square feet per FTE. As a result, we determined that Aetna claimed \$512,330 in unallowable costs during the period October 1989 through September 1994.

SPACE REQUIREMENTS

Appendix B, Section X.B.1 of the Medicare agreement, which became effective October 1, 1978, states:

"With respect to space, either leased or owned, acquired after the effective date of this agreement/contract, the guideline for the amount of such space which may hereafter be allocated...without justification by the contractor, shall be an average of 135 square feet of net usable space per equivalent man-year. Additional amounts of space may be so allocated, provided that the contractor justifies such additional amounts."

Section X.B.2.a. of the Appendix defines net useable space as:

"...gross square footage less:

- (1) Stairwells, elevator shafts and other similar type space serving more than one floor*
- (2) Restrooms*
- (3) Utility space (e.g., heating or air-conditioning equipment areas, janitorial areas, building maintenance areas, other types of building service areas)*
- (4) Lobbies (To the extent not used as a reception area)*
- (5) Garages where part of a building and*
- (6) Cafeterias..."*

The HCFA Region I Office recently re-emphasized this requirement in a memorandum dated May 22, 1995 issued to all Region I Medicare contractors.

SPACE ALLOCATIONS VS. SPACE REQUIREMENTS

Aetna's average square footage charged to Medicare for the period October 1989 through September 1994 was in excess of the 135 square feet guideline. While the average square footage for areas charged directly to Medicare was determined to be within contract limits, space allocated from corporate cost centers caused the overall average square footage to exceed contract requirements.

Space Allocated from Corporate Cost Centers

Aetna officials indicated that some of the corporate cost centers were related to service areas, such as data processing, supply, educational and printing centers. By their nature, these cost centers have large amounts of square feet but a small number of employees assigned to their operation which results in a distortion of the overall average square feet per FTE. As a result, Aetna officials believe that such cost centers should not be subject to the Appendix B standard. In addition, Aetna officials indicated that it is their interpretation that the Appendix B standard applies to only the direct Medicare cost centers. These officials further indicated that space for such cost centers has historically been allocated in accordance with the Appendix B standard.

Based on the Appendix B standard and HCFA's recent re-emphasis of these requirements, the standards are applicable to all cost centers allocated to Medicare. As a result, space allocated to Medicare did not conform with these standards and costs associated with the excess space allocations are unallowable for reimbursement under the Medicare program.

Average Space Increase Resulting from Incentive Payments

Aetna presented justification to HCFA regarding space requirements for fiscal years 1993 and 1994. During these fiscal years, Aetna's Medicare contract included an incentive payment provision which provided Aetna an incentive payment if the actual costs of processing Medicare claims were lower than established target costs.

Aetna indicated that prior to the implementation of the incentive payment provisions, space for operations charged directly to Medicare was at or below the Appendix B guidelines. In order to meet the incentive target amounts, Aetna instituted cost efficiencies, including the reduction of direct Medicare staff. However, Aetna officials indicated that the field and home office facilities were locked into long term lease agreements. As a result, a reduced FTE level without a corresponding reduction in space would cause the average square feet per FTE to exceed the Appendix B standard for fiscal years 1993 and 1994.

Aetna officials were concerned that an audit disallowance would be made for the excess space allocations. As a result, Aetna requested HCFA approval for those instances in which excess space allocations were directly associated with cost efficiencies instituted for the incentive payment provisions of the contract.

The HCFA Central Office responded to Aetna in a letter dated March 12, 1993, stating that if Aetna was in compliance with the Appendix B space requirements prior to the implementation of the incentive payment provisions, the space limitations in Appendix B would be applicable only for space acquired after October 1, 1992, the effective date of the incentive payment provisions. During fiscal years 1993 and 1994, Aetna did not have any newly acquired space which would have resulted in increasing average square footage per equivalent man-year. However, Aetna's direct Medicare field and home office operations exceeded the Appendix B standard but only because of reductions in direct staff in the various field offices. Since space directly associated with Medicare field offices operations and home office administration was within the Appendix B guidelines through fiscal year 1992, we believe it is reasonable to exclude any increases in average square footage caused by staff reductions.

Space Excess to Requirements

Thus, for purposes of calculating the amount of space allocated to Medicare, we eliminated space related to buildings owned or leased prior to October 1978, the effective date of the 135 square foot per FTE standard. We also eliminated excess space directly related to the reduction of staff associated with incentive payment contract provisions. We then combined the direct and corporate space allocations and FTEs for the remaining cost centers and developed an overall average square foot allocation per FTE. We determined that the net result of unallowable Medicare space allocations is as follows:

<u>Fiscal Year</u>	<u>Average Sq. Ft. Per FTE</u>	<u>Excess Sq. Ft.</u>	<u>Unallowable Costs</u>
1990	137	2	\$ 81,051
1991	134	0	0
1992	138	3	131,024
1993	140	5	53,336
1994	150	15	<u>246,919</u>
Total			<u>\$512,330</u>

Recommendations

We recommend that FACP's for Parts A and B be reduced as follows:

<u>Fiscal Year</u>	<u>Part A</u>	<u>Part B</u>
1990	\$ 29,178	\$ 51,873
1991	0	0
1992	47,169	83,855
1993	19,734	33,602
1994	<u>93,829</u>	<u>153,090</u>
Total	<u>\$189,910</u>	<u>\$322,420</u>

We also recommend that Aetna establish procedures to ensure that space allocated to Medicare for all direct and indirect cost centers is within the Appendix B standard of an average of 135 square feet per FTE.

Auditee Comments

In response to our draft report (see APPENDIX D), Aetna officials disagreed with our recommendations. The response states that *"...for the first time in 30 years of the Medicare program, the OIG has elected to retroactively include **indirect** square footage in its review of the 135 square foot rule...this retroactive application is unfair...never allowing us a chance to try and address this issue...If HCFA is changing direction on this issue, it should be prospectively, not retroactively."*

The response continues *"...in applying this rule, as contained in our contract with HCFA, Medicare contractors did not receive all of the exclusions written into the original GSA regulations...which grant more exceptions from the 135 square foot rule..."* The response concludes *"...Aetna Medicare management feels that it is totally unfair to the contractor community...to deny the use of these exceptions which are followed and used by HCFA in its own government compliance..."*

Additional Office of Audit Services Comments

As noted in our report, the Appendix B standards on space are very specific relative to the average amount of square feet per FTE to be allocated to Medicare and the type of space that can be excluded in the determination of the average. These requirements also apply to both direct Medicare cost centers as well as indirect corporate cost centers allocated to Medicare. Consequently, we used a strict application of these standards in determining the amount recommended for disallowance. Based on this criteria and HCFA's recent re-emphasis of the need for contractors to follow these standards, it is our opinion that Aetna should have ensured that space was allocated in accordance with the Appendix B standards.

ALLOCATION OF HOME OFFICE RENTAL COSTS

Our review disclosed that through September 1991 Aetna claimed rental costs for the Medicare Home Office facility on the basis of a corporate rent pool method. This method resulted in an inequitable allocation of \$602,071 in rental costs to the Medicare program for the period October 1989 through September 1991.

This inequity was identified in the prior audit report of Aetna's claim for Medicare administrative costs (CIN: A-01-91-00500, issued August 13, 1991). The prior audit report noted that under the rent pool method, the costs related to the Medicare Home Office facility were included in a corporate pool of all buildings owned and leased by the corporation in the Hartford - Middletown, Connecticut area. The costs related to the operation of these buildings were averaged and a rate per square foot was calculated. This formed the basis for the rental charges to each line of business, including Medicare. The auditors noted that the facility occupied by Medicare Home Office Administration was a leased building and costs specifically identified with the operation of the building were much lower than the rent charged through the corporate pool method.

Subsequent to the issuance of the prior audit report, in October 1991, Aetna agreed to change the method of charging Home Office rent to include only costs directly identifiable with the facility's operation. However, because of the timing of the prior audit and its resolution, Aetna continued to claim costs under the pool method through fiscal year 1991.

At the start of our current audit, Aetna officials provided us with their computation of the adjustment needed to correct the overstated Home Office rent claimed in the FACPs for fiscal years 1990 and 1991. Aetna determined that for fiscal years 1990 and 1991 the Home Office rent costs are overstated by \$602,071. We reviewed the method used to develop the necessary adjustment and found it to be acceptable. We further reviewed the Home Office rental charges for fiscal years 1992 through 1994 and found that Aetna's method of charging Home Office rent was now based on actual costs of operating the facility. We believe that the rental charges for these fiscal years are reasonable.

Recommendation

We recommend that the FACPs for fiscal years 1990 and 1991 be reduced as follows:

<u>Fiscal Year</u>	<u>Part A</u>	<u>Part B</u>
1990	\$130,247	\$231,551
1991	<u>88,901</u>	<u>151,372</u>
Totals	<u>\$219,148</u>	<u>\$382,923</u>

Based on Aetna's current method of charging Medicare with actual costs of operating the Home Office facility, we have no further procedural recommendations.

Auditee Comments

In response to our draft report, Aetna officials agreed with our audit adjustments (see **APPENDIX D**).

FINANCE CHARGES INCLUDED IN RENTAL COSTS

Our review of rental costs related to Aetna's Medicare Home Office facility disclosed that unallowable interest charges of \$43,428 associated with a capital improvement project were claimed for reimbursement in the FACPs for fiscal years 1992 through 1994. According to the Federal Acquisition Regulations (FAR), such costs are not allowable for reimbursement under Federally funded programs.

Aetna moved into the Medicare Home Office facility in 1985 and at that time entered into an agreement to pay the landlord of the facility \$425,000 plus finance charges at the rate of 15 percent interest amortized over a ten year period for building improvements. The monthly payments, which were included in the rental charges to Medicare, consisted of both principal and interest.

According to FAR Part 31.205-20:

"Interest on borrowings (however represented)...are unallowable except for interest assessed by State or local taxing authorities..."

Aetna officials recognized that the finance charges were unallowable costs and excluded the costs in calculating the adjustment previously noted for fiscal years 1990 and 1991 (see finding entitled "**Allocation of Home Office Rental Costs**" on page 7 of this report). However, we found that Aetna officials did not make an adjustment to exclude the finance charges totaling \$43,428 from the costs included in the monthly rental charge claimed on the FACPs for fiscal years 1992 through 1994.

Recommendations

We recommend that the FACPs for fiscal years 1992 through 1994 be reduced as follows:

<u>Fiscal Year</u>	<u>Part A</u>	<u>Part B</u>
1992	\$ 7,767	\$13,808
1993	5,490	9,347
1994	<u>2,666</u>	<u>4,350</u>
Totals	<u>\$15,923</u>	<u>\$27,505</u>

We also recommend that Aetna ensure that all unallowable costs be excluded from rental charges claimed on the FACP's in future fiscal years.

Auditee Comments

In response to our draft report, Aetna officials agreed with our audit adjustments (see APPENDIX D).

UNALLOWABLE CORPORATE ALLOCATIONS

In compiling the fiscal year 1992 FACP, Aetna personnel identified 25 cost centers which were generally related to various corporate legal, public relations, marketing and other such departments. Aetna determined that these cost centers did not provide any benefits to the Medicare program and, therefore, should not have been allocated to the program.

Aetna personnel eliminated these costs from the fiscal year 1992 FACP in accordance with Part 31.201-4 of the FAR, which states that:

"A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship."

We reviewed the other fiscal years included in our audit period and found that several of these cost centers had also been allocated to Medicare in the fiscal years 1990 and 1991 FACP's resulting in \$112,969 inappropriately claimed for reimbursement. According to Aetna personnel, it is normal procedure to adjust other periods when costs centers are determined to be unallowable. However, the other fiscal years were apparently overlooked in this case.

Our review also determined that in identifying the amount to be excluded from the fiscal year 1992 FACP, Aetna personnel made some clerical errors that resulted in an overstatement of \$4,780 in the amount to be excluded from the FACP. We are taking this into account in recommending our adjustment to the FACP's.

Based on these factors, the net effect of these oversights and errors is that costs totaling \$108,189 were inappropriately claimed for reimbursement in fiscal years 1990 through 1992.

Recommendations

We recommend that the FACPs for Parts A and B for fiscal years 1990, 1991 and 1992 be adjusted as follows:

<u>Fiscal Year</u>	<u>Part A</u>	<u>Part B</u>
1990	\$ 9,832	\$13,629
1991	41,788	47,733
1992	(1,584)	(3,209)
Totals	<u>\$50,036</u>	<u>\$58,153</u>

We also recommend that Aetna personnel ensure that prior periods are considered when making any adjustments for unallowable allocations to Medicare.

Auditee Comments

In response to our draft report, Aetna officials agreed with our audit adjustments (see APPENDIX D).

INCENTIVE PAYMENTS

The Aetna Medicare Part A and B contracts for fiscal years 1993 and 1994 included provisions to award Aetna with an incentive payment fee, in addition to reimbursement of actual administrative costs, if the costs of processing Medicare Part A and B claims were less than established target amounts. The target amount was based on a projected number of claims processed which was adjusted based on actual workload and multiplied by an agreed to cost per claim for the various categories of claims processed. The projected number of claims processed and the cost per claim were negotiated levels agreed to by Aetna and HCFA Headquarters personnel.

According to the contract provisions, if Aetna's actual cost for processing claims was lower than the target cost, the incentive fee was awarded. The fiscal year 1993 contract provisions allow Aetna an incentive fee of 70 percent of the difference between the actual costs and the target amount. For fiscal year 1994, Aetna was allowed an incentive fee of 50 percent of the difference if actual costs were lower than target costs. For the two fiscal years Aetna claimed the following as incentive fees:

<u>Fiscal Year</u>	<u>Part A</u>	<u>Part B</u>
1993	\$ 4,760,716	\$ 6,367,882
1994	<u>5,413,643</u>	<u>6,527,553</u>
Totals	<u>\$10,174,359</u>	<u>\$12,895,435</u>

During our review, we found that the incentive payments as claimed above were overstated because of (1) inflated counts reported for Part B claims processed and (2) Aetna adjustments and OIG audit adjustments to the cost claimed on the FACPs that net to a reduction in the difference between the target amount and actual allowable costs claimed. Based on these factors, we recommend that the allowable incentive payment fee be reduced by \$223,768 for Part A and \$1,448,437 for Part B. The following provides details of these adjustments.

Part B Claim Count

While we were conducting our review, Aetna personnel became aware of a potential problem with the count for Part B claims processed. Because this is an integral factor in calculating the amount of incentive payment fee, Aetna, in March 1995, initiated an internal review of all Part B field offices. Aetna officials informed us that their review found that the Part B claims processed counts reported on the fiscal year 1993 and 1994 FACPs were, in fact, overstated. The internal review determined that two of the six Part B field offices had duplicated the count of certain claims reported on the Medicare Program Carrier Performance Report (HCFA 1565). The duplicated claim counts resulted in the overstatement of target cost, thus, increasing the variance between the target and actual costs claimed. The calculation of the incentive payment fee claimed was, therefore, overstated by about \$1.1 million for the two fiscal years.

Aetna utilizes the GTE Standard Maintenance System for processing Part B claims. The GTE system generates a monthly activity report (Med 700) summarizing the claim processing activity in each Part B field office. This report is used as a basis for the HCFA 1565 report. The claim processed count on the HCFA 1565 is one of the main factors in determining the amount of the target costs. According to Aetna officials, the GTE report included incorrect headings for one of the claims processed categories causing confusion among some field office personnel as to the correct number of processed claims to be reported. Compounding the problem, Aetna had not provided the field offices with standardized instructions for using the GTE reports in completing the HCFA 1565.

Aetna's internal review determined that the Georgia and Oklahoma/New Mexico Field Offices had duplicated the count of the non-Common Working File claims denied for payment in the total claims processed count. Aetna's review indicated that the remaining four Part B field offices had correctly reported these claims on the HCFA 1565 report. As a result, the claim counts were inflated by 496,129 and 874,261 claims for fiscal years 1993 and 1994, respectively. The inflated counts have the effect of increasing the target cost amount which, in turn, increases the variance between the target and actual administrative costs. The error resulted in overstated Part B incentive payment fees of \$496,625 for fiscal year 1993 and \$645,181 for fiscal year 1994.

We reviewed the method used by Aetna to identify the extent of the problem and reconciled the revised claim counts to the individual field office reports. Based on our review, we believe that the revised claim counts are accurate. Aetna has also reviewed the claim counts used for calculating the Part A incentive fee and found that the appropriate counts were used for the Part A calculation. We also tested the Part A claim counts and found the counts to be accurate.

Aetna officials have taken immediate action to correct these problems. In this regard, Aetna contacted GTE and requested that the GTE monthly activity report be revised to clarify claim category descriptions to correspond to the appropriate claims processed category. In addition, Aetna has prepared instructions for the completion of the HCFA 1565 and distributed the instructions to all field offices for immediate use. Aetna also plans to perform ongoing monitoring of field office compliance with these instructions.

Adjustments to FACP's Affecting Incentive Payment Fee

As noted previously, the incentive payment provisions of the Medicare contracts allow Aetna to receive a percentage of the difference between the incentive target cost and actual allowable administrative costs. These percentages were established by HCFA at 70 percent and 50 percent for fiscal years 1993 and 1994, respectively. However, any adjustments to the allowable costs claimed in the FACP's will also affect the amount of the incentive payment. The following provides details of adjustments identified during the course of our review that have resulted in additional reductions to the incentive payment fee claimed for fiscal years 1993 and 1994.

- (1) Aetna officials provided us with a number of adjustments to the administrative costs claimed in the FACP's submitted for audit. These adjustments have the effect of either increasing or decreasing the amounts claimed on the FACP's. Aetna's proposed adjustments have the net effect of increasing administrative costs as follows:

<u>Fiscal Year</u>	<u>Part A</u>	<u>Part B</u>
1993	\$147,442	\$ 52,784
1994	\$378,115	\$588,065

We reviewed the adjustments and found them to be costs that were either incorrectly allocated to Medicare in the originally submitted FACP or were inadvertently excluded from the original allocations. We determined that the net adjustments were allowable expenses related to the operation of the Medicare program.

- (2) Aetna officials determined that in calculating the Part B incentive payment fee included in the FACP submitted for fiscal year 1993, certain costs were inappropriately classified under the Productivity Investment line of operations. This impacts the incentive payment fee because costs associated with this line of operation are excluded from the incentive fee calculation per the incentive fee provisions of the Medicare

contract. These costs were properly allocable to other lines of operation and, as a result, increase the total allowable administrative costs subject to the incentive fee provisions by \$169,480.

- (3) Our recommended audit adjustments included in this report decrease the allowable administrative costs for fiscal years 1993 and 1994. These recommendations are detailed in the findings entitled, "**Allocation of Facility and Occupancy Costs**" on *page 4* of this report and "**Finance Charges Included in Rental Costs**" included on *page 9* of this report. These recommendations decrease the FACP claims as follows:

<u>Fiscal Year</u>	<u>Part A</u>	<u>Part B</u>
1993	\$25,224	\$ 42,949
1994	\$96,495	\$157,440

The net effect of all these adjustments is an increase in the allowable administrative costs subject to the incentive payment fee provisions of the contract. As a result, the difference between the target costs, as established in the contract, and the actual costs of administering the program is reduced. This reduction has a corresponding negative effect on the amount of incentive payment fee due Aetna.

After redistributing the adjusted costs to the appropriate lines of operation, the allowable incentive fee is further reduced as follows:

<u>Fiscal Year</u>	<u>Part A</u>	<u>Part B</u>
1993	\$ 85,266	\$122,740
1994	\$138,502	\$183,891

Summary

Based on our review of the incentive payment fees, we concluded that the allowable fees for fiscal years 1993 and 1994 should be reduced. Aetna officials agreed to recompute the allowable incentive fee based on the identified adjustments. After redistributing the adjusted costs to the appropriate lines of operation it was determined that the allowable incentive fees for the two fiscal years should be reduced as follows:

<u>Fiscal Year</u>	<u>Reason</u>	<u>Part A</u>	<u>Part B</u>
1993	Claim Count Error	\$ -0-	\$ 496,625
	FACP Adjustments	<u>85,266</u>	<u>122,740</u>
	Total	<u>\$ 85,266</u>	<u>\$ 619,365</u>
1994	Claim Count Error	\$ -0-	\$ 645,181
	FACP Adjustments	<u>138,502</u>	<u>183,891</u>
	Total	<u>\$138,502</u>	<u>\$ 829,072</u>
	Grand Total	<u>\$223,768</u>	<u>\$1,448,437</u>

Recommendation

We recommend that the fiscal years 1993 and 1994 FACP's be reduced by \$223,768 for Part A and \$1,448,437 for Part B.

Based on Aetna's plan of action to correct the problems identified with the claim count for Part B claims processed, we do not have any further procedural recommendations.

Auditee Comments

In response to our draft report, Aetna officials agreed with our audit adjustments (see **APPENDIX D**).

OTHER MATTERS

ADJUSTMENT TO PRIOR AUDIT REPORT SETTLEMENT

As previously noted, the prior audit report on Aetna's claim for Medicare administrative costs for fiscal years 1988 and 1989 (CIN: A-01-91-00500) included a finding on the direct rent charged to the program for the Medicare Home Office facility. However, the auditors performing the prior review were not able to determine the exact amount of the disallowance and recommended that Aetna review the cost of operating the facility to determine what costs are directly identifiable with the facility. Aetna provided documentation to HCFA to support additional operating costs over what the auditors had identified. The HCFA agreed to accept the documentation and conditionally close the finding subject to a review by OIG in the current audit.

Our review determined that the unallowable interest charges noted in the finding entitled, "**Finance Charges Included in Rental Costs**" on *page 9* of this report were also included in Aetna's proposed adjustment to the prior audit report's recommended disallowance. We determined that \$77,088 in unallowable interest charges were included in this adjustment.

We recommend that HCFA adjust the final settlement amount for the prior report as related to this issue by decreasing the Aetna proposed adjustment by \$77,088 as follows:

<u>Fiscal Year</u>	<u>Part A</u>	<u>Part B</u>
1988	\$19,392	\$21,007
1989	14,676	<u>22,013</u>
Totals	<u>\$34,068</u>	<u>\$43,020</u>

In response to our draft report, Aetna officials agreed with our audit adjustments (see APPENDIX D).

**AETNA LIFE INSURANCE COMPANY
PART A FINAL ADMINISTRATIVE COST PROPOSAL
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

Line of Operation	Administrative Costs Claimed
Bills Payment	\$ 9,253,291
Reconsiderations and Hearings	768,263
Medicare Secondary Payer	2,428,771
Medical Review and Utilization Review	2,699,023
Provider Desk Reviews	4,005,420
Provider Field Audits	4,791,332
Provider Settlements	2,732,362
Provider Reimbursement	5,418,546
Productivity Investments	<u>588,276</u>
Total Costs Claimed	\$32,685,284
Costs Claimed Subsequently Adjusted by Aetna*	(5,735)
Costs Recommended for Disallowance by OIG/OAS**	<u>(169,257)</u>
Total Costs Recommended for Acceptance	<u>\$32,510,292</u>

* - See APPENDIX C Note 1

** - See APPENDIX C Note 2

**AETNA LIFE INSURANCE COMPANY
PART A FINAL ADMINISTRATIVE COST PROPOSAL
FOR THE YEAR ENDED SEPTEMBER 30, 1991**

Line of Operation	Administrative Costs Claimed
Bills Payment	\$ 10,237,413
Reconsiderations and Hearings	770,865
Medicare Secondary Payer	2,709,713
Medical Review and Utilization Review	2,655,827
Provider Desk Reviews	4,243,385
Provider Field Audits	5,936,023
Provider Settlements	3,108,246
Provider Reimbursement	5,804,657
Productivity Investments	551,749
Fraud and Abuse	<u>29,683</u>
Total Costs Claimed	\$36,047,561
Costs Claimed Subsequently Adjusted by Aetna*	237,398
Costs Recommended for Disallowance by OIG/OAS**	<u>(130,689)</u>
Total Costs Recommended for Acceptance	<u><u>\$36,154,270</u></u>

* - See APPENDIX C Note 1

** - See APPENDIX C Note 2

**AETNA LIFE INSURANCE COMPANY
PART A FINAL ADMINISTRATIVE COST PROPOSAL
FOR THE YEAR ENDED SEPTEMBER 30, 1992**

Line of Operation	Administrative Costs Claimed
Bills Payment	\$12,398,081
Reconsiderations and Hearings	895,896
Medicare Secondary Payer	2,641,577
Medical Review and Utilization Review	1,873,059
Provider Desk Reviews	4,654,195
Provider Field Audits	3,751,472
Provider Settlements	2,977,781
Provider Reimbursement	5,386,747
Productivity Investments	<u>433,830</u>
Total Costs Claimed	\$35,012,638
Costs Claimed Subsequently Adjusted by Aetna*	111,298
Costs Recommended for Disallowance by OIG/OAS**	<u>(53,352)</u>
Total Costs Recommended for Acceptance	<u>\$35,070,584</u>

* - See APPENDIX C Note 1

** - See APPENDIX C Note 2

**AETNA LIFE INSURANCE COMPANY
PART A FINAL ADMINISTRATIVE COST PROPOSAL
FOR THE YEAR ENDED SEPTEMBER 30, 1993**

Line of Operation	Administrative Costs Claimed
Bills Payment	\$ 11,697,675
Reconsiderations and Hearings	857,738
Medicare Secondary Payer	2,647,718
Medical Review and Utilization Review	2,236,265
Provider Desk Reviews	5,622,651
Provider Field Audits	4,033,517
Provider Settlements	3,674,409
Provider Reimbursement	6,279,585
Productivity Investments	520,931
Fraud and Abuse	141,442
Target and Incentive Fee	4,760,716
Other	<u>198,488</u>
Total Costs Claimed	\$ 42,671,135
Costs Claimed Subsequently Adjusted by Aetna*	147,442
Costs Recommended for Disallowance by OIG/OAS**	<u>(110,490)</u>
Total Costs Recommended for Acceptance	<u>\$ 42,708,087</u>

* - See APPENDIX C Note 1

** - See APPENDIX C Note 2

**AETNA LIFE INSURANCE COMPANY
PART A FINAL ADMINISTRATIVE COST PROPOSAL
FOR THE YEAR ENDED SEPTEMBER 30, 1994**

Line of Operation	Administrative Costs Claimed
Bills Payment	\$12,527,038
Reconsiderations and Hearings	1,136,236
Medicare Secondary Payer	2,815,447
Medical Review and Utilization Review	2,779,038
Provider Desk Reviews	6,157,314
Provider Field Audits	3,420,029
Provider Settlements	3,732,475
Provider Reimbursement	6,385,871
Productivity Investments	225,986
Fraud and Abuse	581,869
Target and Incentive Fee	<u>5,413,643</u>
Total Costs Claimed	\$45,174,946
Costs Claimed Subsequently Adjusted by Aetna*	378,115
Costs Recommended for Disallowance by OIG/OAS**	<u>(234,997)</u>
Total Costs Recommended for Acceptance	<u><u>\$45,318,064</u></u>

* - See APPENDIX C Note 1

** - See APPENDIX C Note 2

**AETNA LIFE INSURANCE COMPANY
PART B FINAL ADMINISTRATIVE COST PROPOSAL
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

Line of Operation	Administrative Costs Claimed
Claims Payment	\$32,836,587
Reviews and Hearings	3,308,955
Beneficiary/Physician Inquiry	7,357,901
Professional Relations	728,440
Medical Review and Utilization Review	8,573,802
Medicare Secondary Payer	2,014,923
Participating Physician	2,185,432
Productivity Investments	1,739,843
Carrier Bonus	<u>283,200</u>
Total Costs Claimed	\$59,029,083
Costs Claimed Subsequently Adjusted by Aetna*	(341,260)
Costs Recommended for Disallowance by OIG/OAS**	<u>(297,053)</u>
Total Costs Recommended for Acceptance	<u>\$58,390,770</u>

* - See APPENDIX C Note 1

** - See APPENDIX C Note 2

**AETNA LIFE INSURANCE COMPANY
PART B FINAL ADMINISTRATIVE COST PROPOSAL
FOR THE YEAR ENDED SEPTEMBER 30, 1991**

Line of Operation	Administrative Costs Claimed
Claims Payment	\$33,741,126
Reviews and Hearings	3,680,833
Beneficiary/Physician Inquiry	7,421,731
Professional Relations	873,645
Medical Review and Utilization Review	7,976,143
Medicare Secondary Payer	2,820,576
Participating Physician	1,897,187
Productivity Investments	1,984,914
Carrier Bonus	<u>441,800</u>
Total Costs Claimed	\$60,837,955
Costs Claimed Subsequently Adjusted by Aetna*	104,339
Costs Recommended for Disallowance by OIG/OAS**	<u>(199,105)</u>
Total Costs Recommended for Acceptance	<u>\$60,743,189</u>

* - See APPENDIX C Note 1

** - See APPENDIX C Note 2

**AETNA LIFE INSURANCE COMPANY
PART B FINAL ADMINISTRATIVE COST PROPOSAL
FOR THE YEAR ENDED SEPTEMBER 30, 1992**

Line of Operation	Administrative Costs Claimed
Claims Payment	\$33,895,394
Reviews and Hearings	3,854,476
Beneficiary/Physician Inquiry	7,491,620
Professional Relations	1,170,746
Medical Review and Utilization Review	5,212,664
Medicare Secondary Payer	3,324,088
Participating Physician	1,800,731
Productivity Investments	5,866,422
Carrier Bonus	<u>387,300</u>
Total Costs Claimed	\$63,003,441
Costs Claimed Subsequently Adjusted by Aetna*	174,452
Costs Recommended for Disallowance by OIG/OAS**	<u>(94,454)</u>
Total Costs Recommended for Acceptance	<u>\$63,083,439</u>

* - See APPENDIX C Note 1

** - See APPENDIX C Note 2

AETNA LIFE INSURANCE COMPANY
PART B FINAL ADMINISTRATIVE COST PROPOSAL
FOR THE YEAR ENDED SEPTEMBER 30, 1993

Line of Operation	Administrative Costs Claimed
Claims Payment	\$32,896,666
Reviews and Hearings	4,054,675
Beneficiary/Physician Inquiry	7,218,286
Professional Relations	1,322,889
Medical Review and Utilization Review	4,602,762
Medicare Secondary Payer	3,806,407
Participating Physician	1,608,050
Productivity Investments	9,134,441
Carrier Bonus	864,691
Incentive Payment	6,367,882
Other	<u>360,900</u>
Total Costs Claimed	\$72,237,649
Costs Claimed Subsequently Adjusted by Aetna*	52,784
Costs Recommended for Disallowance by OIG/OAS**	<u>(662,314)</u>
Total Costs Recommended for Acceptance	<u>\$71,628,119</u>

* - See APPENDIX C Note 1

** - See APPENDIX C Note 2

**AETNA LIFE INSURANCE COMPANY
PART B FINAL ADMINISTRATIVE COST PROPOSAL
FOR THE YEAR ENDED SEPTEMBER 30, 1994**

Line of Operation	Administrative Costs Claimed
Claims Payment	\$36,260,087
Reviews and Hearings	4,928,386
Beneficiary/Physician Inquiry	8,561,436
Professional Relations	1,834,868
Medical Review and Utilization Review	5,653,072
Medicare Secondary Payer	5,669,092
Participating Physician	1,871,650
Productivity Investments	766,744
Carrier Bonus	1,280,553
Incentive Payment	6,527,553
Other	<u>258,100</u>
Total Costs Claimed	\$73,611,541
Costs Claimed Subsequently Adjusted by Aetna*	588,065
Costs Recommended for Disallowance by OIG/OAS**	<u>(986,512)</u>
Total Costs Recommended for Acceptance	<u>\$73,213,094</u>

* - See APPENDIX C Note 1

** - See APPENDIX C Note 2

AETNA LIFE INSURANCE COMPANY
NOTES TO FINAL ADMINISTRATIVE COST PROPOSALS
OCTOBER 1989 THROUGH SEPTEMBER 1994

1. Aetna prepared a series of audit adjustments subsequent to the submission of the final FACPs to HCFA. The audit adjustments were to record either increases or decreases to accruals made in each operational year's FACP or were to correct errors found by Aetna after submission of the FACPs. We have audited the adjustments prepared by Aetna as part of our overall audit of administrative costs claimed.
2. Costs Recommended for Disallowance

Part A costs recommended for disallowance consist of the following:

	1990	1991	1992	1993	1994	Total
1. Allocation of Facility and Occupancy Costs	\$ 29,178	\$ 0	\$47,169	\$ 19,734	\$ 93,829	\$189,910
2. Allocation of Home Office Rental Costs	130,247	88,901				219,148
3. Finance Charges in Rental Costs			7,767	5,490	2,666	15,923
4. Unallowable Corporate Allocations	9,832	41,788	(1,584)			50,036
5. Incentive Payments	_____	_____	_____	<u>85,266</u>	<u>138,502</u>	<u>223,768</u>
Totals	<u>\$169,257</u>	<u>\$130,689</u>	<u>\$53,352</u>	<u>\$110,490</u>	<u>\$234,997</u>	<u>\$698,785</u>

2. Costs Recommended for Disallowance (cont.)

Part B costs recommended for disallowance consist of the following:

	1990	1991	1992	1993	1994	Total
1. Allocation of Facility and Occupancy Costs	\$ 51,873	\$ 0	\$83,855	\$ 33,602	\$153,090	\$ 322,420
2. Allocation of Home Office Rental Costs	231,551	151,372				382,923
3. Finance Charges in Rental Costs			13,808	9,347	4,350	27,505
4. Unallowable Corporate Allocations	13,629	47,733	(3,209)			58,153
5. Incentive Payments	<u> </u>	<u> </u>	<u> </u>	<u>619,365</u>	<u>829,072</u>	<u>1,448,437</u>
Totals	<u>\$297,053</u>	<u>\$199,105</u>	<u>\$94,454</u>	<u>\$662,314</u>	<u>\$986,512</u>	<u>\$2,239,438</u>



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Manager
Medicare Administration, MAA8
Aetna Health Plans
Aetna Life Insurance Company
Phone: 203-636-5671
FAX: 203-636-5498

October 26, 1995

Mr. Richard J. Ogden
Regional Inspector General for Audit Services
Office of Inspector General
Office of Audit Services, Region I
Health Care Financing Administration
JFK Federal Building, Government Center
Boston, MA 02203

RE: CIN: A-01-95-00504 FACP Audits FY 1990 - 1994

Mr. Ogden:

I have reviewed the draft audit report for Aetna Life Insurance Company issued by your agency, covering FACP audits for the period October 1, 1989 through September 30, 1994.

I am in agreement with all of the draft audit adjustments, with the following exception:

I disagree with the adjustment for the allocation of facility and occupancy costs. This disagreement stems from the fact that for the first time in 30 years of the Medicare program, the OIG has elected to retroactively include indirect square footage in its review of the 135 square foot rule. We have always made every effort to comply with the 135 square foot rule from a direct Medicare cost center perspective, and according to your auditors, we in fact, had complied.

I feel that this retroactive application is unfair, and certainly precedent setting; never allowing us a chance to try and address this issue as we perform our business each year. If HCFA is changing direction on this issue, it should be prospectively, not retroactively.

I am additionally concerned by the fact that in applying this rule, as contained in our contract with HCFA, Medicare contractors did not receive all of the exclusions written into the original GSA regulations. HCFA follows the GSA regulations, which grant more exceptions from the 135 square foot rule, but HCFA fails to allow Medicare contractors the opportunity to use the same benefit.

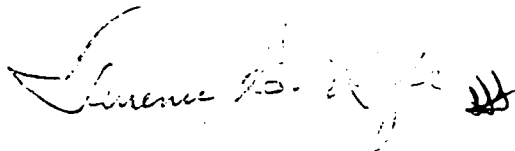
Examples of exceptions available under GSA regulations, but not available to us under our contract are:

- * Training rooms
- * Libraries
- * Lounges
- * Reception areas
- * Telephone switchboard room
- * Health rooms
- * Auditoriums
- * Computer rooms
- * Tape vaults

Aetna Medicare management feels that it is totally unfair to the contractor community, and Aetna in particular, to deny the use of these exceptions which are followed and used by HCFA in its own government compliance. This adjustment amounted to a reduction in costs of \$512,330 for both our Part A and Part B contract. I disagree with this entire adjustment and I wish to go on record as appealing this.

Should you have any questions regarding the above, please contact me at (203) 636-5671.

Sincerely,



Terrence E. Keefe, Manager
Medicare Administration, MAA8
Aetna Health Plans
Aetna Life Insurance Company

c: R. Williams, Aetna
P. Hamel, HCFA Boston
L. Aceto, Aetna
K. Filkins, Aetna
R. Cournoyer, Aetna
R. Champagne, OIG Hartford
tek/ogden